

CITY OF ELGIN

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2013 THROUGH JUNE 30, 2014**

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CITY OF ELGIN

OFFICIALS

<u>Name</u>	<u>Title</u> <u>(Before January, 2014)</u>	<u>Term Expires</u>
William Pfister	Mayor	Jan. 2014
John Knobloch	Mayor Pro tem	Jan. 2016
Sarah Schori	Council Member	Jan. 2014
Sara Strong	Council Member	Jan. 2014
Robert Frieden	Council Member	Jan. 2016
Michael Baker	Council Member	Jan. 2016
Rhonda Dales	City Clerk	Indefinite
Larry Ormston	Treasurer	Indefinite
David Katsumes	Attorney	Indefinite
<u>(After December, 2013)</u>		
William Pfister	Mayor	Jan. 2018
James Knobloch	Mayor Pro tem	Jan. 2016
Robert Frieden	Council Member	Jan. 2016
Michael Baker	Council Member	Jan. 2016
Sarah Schori	Council Member	Jan. 2018
Sara Strong	Council Member	Jan. 2018
Rhonda Dales	City Clerk	Indefinite
Larry Ormston	Treasurer	Indefinite
David Katsumes	Attorney	Indefinite

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Honorable Mayor
And Members of the City Council:

We have performed an agreed-upon procedures engagement of the City of Elgin pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide certain minimum oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Elgin for the period July 1, 2013 through June 30, 2014. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.

6. We reviewed the City's fiscal year 2013 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
8. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
9. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
10. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
11. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization, and accurate accounting.
13. We reviewed the annual certified budget for proper authorization, certification, and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Elgin, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Elgin additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees, citizens and customers of the City of Elgin and other parties to whom the City of Elgin may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Elgin during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

October 6, 2014

A handwritten signature in cursive script that reads "Dietz, Donald & Company".

Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

DETAILED RECOMMENDATIONS

CITY OF ELGIN
DETAILED RECOMMENDATIONS
For the Period July 1, 2013 through June 30, 2014

(A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one employee has control over each of the following areas of the City:

- (1) Accounting system - performing all general accounting functions, including journal entries, and having custody of assets.
- (2) Cash - handling and recording.
- (3) Receipts - opening mail, collecting, depositing, journalizing and posting.
- (4) Utilities - billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (5) Debt - recordkeeping, compliance and debt payment processing.
- (6) Journal entries - preparing and journalizing
- (7) Disbursements - purchasing, invoice processing, check writing, mailing, reconciling, and recording.
- (8) Payroll - entering rates into the system, recordkeeping, preparing and distributing.
- (9) Computer system - performing all general accounting functions and controlling all data input and output.
- (10) Financial reporting - preparing and reconciling.

Recommendation - We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations and journal entries should be evidenced by the signature or initials of the reviewed and the date of the review.

CITY OF ELGIN
DETAILED RECOMMENDATIONS
For the Period July 1, 2013 through June 30, 2014

- (B) Separately Maintained Records - The City has entered into a grant agreement with the United States Department of Agriculture Rural Development to create a revolving loan fund to assist new businesses in Elgin. The transactions and balances for this fund have not been accounted for or reported by the City in the City's financial statements or Annual Financial Report.

Chapter 384.20 of the Code of Iowa states in part "a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City purpose by a City officer, employee or other person, and which show the receipt, use and disposition of all City property."

Recommendation - The City should include this account in its records in accordance with Chapter 384.20 of the Code of Iowa.

- (C) Certified Budget - Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the culture and recreation, debt service, capital projects and business type activities. Chapter 384.20 of the Code of Iowa states in part "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (D) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
William Pfister, Mayor Employee of Fauser Oil	LP and diesel fuel	\$ 4,417
Michael Baker, Council Member Partner in Baker Concrete and Excavating	Cement work	8,167
Rhonda Dales, City Clerk	Cleaning City Hall	2,700

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For the Period July 1, 2013 through June 30, 2014

In accordance with Chapter 362.5(k) of the Code of Iowa, these transactions may represent a conflict of interest since total transactions were more than \$ 2,500 during the year and the transactions were not competitively bid.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

- (E) City Council Minutes - Although minutes of the City Council proceedings were published, the City did not publish a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation - A summary of receipts should be published as required.

- (F) Water Revenue Bonds - The City's water revenue bond resolution requires the City to establish, impose, adjust and provide for the collection of rates to be charged to utility customers to produce net operating receipts equal to at least 110% of principal and interest coming due in each fiscal year. The City's fiscal year 2014 net water receipts of \$ (17,343) were less than 110% of the \$ 26,858 of water revenue bond principal and interest due during fiscal year 2014.

Recommendation - The City should review its water rate structure and expenses and adjust to ensure collection of net receipts of at least 110% of the principal and interest payments due in the fiscal year.

- (G) Financial Condition - At June 30, 2014, the City had deficit balances of \$ 25,576 and \$ 255 in the Capital Projects and Enterprise, Water Funds, respectively.

Recommendation - The City should investigate alternatives to eliminate these deficits to return these funds to a sound financial condition.

- (H) Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation - The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

CITY OF ELGIN
DETAILED RECOMMENDATIONS
For the Period July 1, 2013 through June 30, 2014

- (I) Form 1099 MISC. Compliance - The Internal Revenue Code requires any entity that pays more than \$ 600 to non corporate vendors for services to issue that vendor a form 1099-MISC. The City did not issue any 1099-MISC forms for calendar year 2013, although transactions were noted which appear to meet the Internal Revenue Code criteria for filing.

Recommendation - The City should review all payments for services at the end of the calendar year and issue Form 1099-MISC to any non corporate vendor that received total payments exceeding \$ 600 during the calendar year.

- (J) Health Reimbursement Arrangement - In lieu of providing a group health insurance policy, the City Council approved providing \$ 2,600 for one employee and \$ 2,400 for another employee to reimburse those employee for health insurance premiums. This Health Reimbursement Arrangement (HRA) is no longer in compliance with federal requirements.

Recommendation - For the HRA to comply with federal requirements the City will have to do one of the following:

- (1) Include the reimbursements as taxable income on the employees' W-2s;
- (2) Remove the limits for reimbursement; or
- (3) Provide group health insurance with the City determining how much each employee will contribute towards the premium.

If the City does not want to do any of the above, the HRA should be terminated, as penalties for noncompliance are substantial.